



FEDERAL ELECTION COMMISSION  
WASHINGTON, D.C. 20463

May 21, 2014

**MEMORANDUM**

To: The Commission

Through: Alec Palmer  
Staff Director

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By: Robert Morcomb *RM*  
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Subject: Audit Division Recommendation Memorandum on the Committee on  
Arrangements for the 2012 Republican National Convention (COA)

Pursuant to Commission Directive No. 70 (FEC Directive on Processing Audit Reports), the Audit staff presents its recommendations below and discusses the findings in the attached Draft Final Audit Report (DFAR). The Office of General Counsel has reviewed this memorandum and concurs with the recommendations.

**Finding 1. Net Outstanding Convention Expenses (NOCE)**

In response to the Preliminary Audit Report, COA did not dispute the amount repayable to the United States Treasury of \$670,769 as of October 31, 2013 and provided an updated NOCE. The revised NOCE prepared by the Audit staff and presented in the DFAR reflected an amount of unspent funds of \$701,106 as of February 28, 2014. COA provided no additional comments concerning the revised NOCE in its response to the DFAR, however; COA provided the Audit staff with an updated NOCE on May 2, 2014. Based on the COA's calculations on the latest NOCE, the Audit staff revised the amount of unspent funds to be \$679,623 as of April 30, 2014.

The Audit staff recommends that the Commission find that the remaining portion of unspent funds as of April 30, 2014, \$679,623,<sup>1</sup> is repayable to the United States Treasury.

**Finding 2. Failure to Itemize Debts**

In response to the Preliminary Audit Report, COA filed amended reports which materially itemized debts and obligations of \$272,085 to four vendors. In addition, COA stated that it disagreed with the basis for the finding but provided no further explanation. COA provided no additional comments in its response to the DFAR.

The Audit staff recommends that the Commission find that the COA failed to disclose debts and obligations of \$272,085 in its reports.

The Committee did not request an audit hearing.

If this memorandum is approved, a Proposed Final Audit Report will be prepared within 30 days of the Commission's vote.

In case of an objection, Directive No. 70 states that the Audit Division Recommendation Memorandum will be placed on the next regularly scheduled open session agenda.

Documents related to this audit report can be viewed in the Voting Ballot Matters folder. Should you have any questions, please contact Robert Morcomb or Alex Boniewicz at 694-1200.

**Attachment:**

- Draft Final Audit Report of the Audit Division on the Committee on Arrangements for the 2012 Republican National Convention

cc: Office of General Counsel

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<sup>1</sup> Estimated winding down cost will be compared to actual winding down cost and adjusted accordingly.



## **Draft Final Audit Report of the Audit Division on the Committee on Arrangements for the 2012 Republican National Convention** (June 22, 2010 - February 28, 2014)

### **Why the Audit Was Done**

Federal law requires the Commission to audit the national committee of a party who receives payments for presidential nominating conventions.<sup>1</sup> The audit examines the receipt and use of Federal funds and whether the committee otherwise complied with the limitations, prohibitions and disclosure requirements of the election law.

### **Future Action**

The Commission may initiate an enforcement action, at a later time, with respect to any of the matters discussed in this report.

### **About the Committee** (p. 2)

The Committee on Arrangements for the 2012 Republican National Convention (COA) was responsible for the day-to-day arrangements and operations of the Republican Presidential nomination convention. COA is headquartered in Washington, DC. For more information, see chart on the Committee Organization, p. 2.

### **Financial Activity** (p. 2)

• Receipts	
o Federal Funds	\$ 18,248,300
o Loans Received	1,000,000
o Offsets to Convention Expenditures	998,957
<b>Total Receipts</b>	<b>\$ 20,247,257</b>
• Disbursements	
o Convention Expenditures	\$ 17,789,385
o Loan Repayments	1,000,000
<b>Total Disbursements</b>	<b>\$ 18,789,385</b>

### **Findings and Recommendations** (p. 3)

- Net Outstanding Convention Expenses (Finding 1)
- Failure to Itemize Debts (Finding 2)

<sup>1</sup> 26 U.S.C. §9008(g).

# **Draft Final Audit Report of the Audit Division on the Committee on Arrangements for the 2012 Republican National Convention**

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(June 22, 2010 - February 28, 2014)



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## **Part I Background**

### **Authority for Audit**

This report is based on an audit of the Committee on Arrangements for the 2012 Republican National Convention (COA), undertaken by the Audit Division of the Federal Election Commission (the Commission) as mandated by Section 9008(g) of Title 26 of the United States Code. That section directs the Commission to conduct an examination and audit of the payments for presidential nominating conventions no later than December 31 of the calendar year in which the presidential nominating convention involved is held.

### **Scope of Audit**

This audit examined:

1. the disclosure of receipts and loans;
2. the disclosure of disbursements, debts and obligations;
3. the recordkeeping process and completeness of records;
4. the consistency between reported figures and bank records;
5. the accuracy of the Statement of Net Outstanding Convention Expenses;
6. the committee's compliance with requirements concerning expenditures for convention expenses; and
7. other committee operations necessary to the review.

### **Inventory of Committee Records**

The Audit staff routinely conducts an inventory of committee records before it begins the audit fieldwork. COA records were materially complete and the fieldwork began immediately.

## Part II

### Overview of Committee

#### Committee Organization

<b>Important Dates</b>	
• Date of Registration	June 21, 2010
• Audit Coverage	June 22, 2010 - February 28, 2014
<b>Headquarters</b>	
Washington, DC	
<b>Bank Information</b>	
• Bank Depositories	Two
• Bank Accounts	Three Accounts
<b>Treasurer</b>	
• Treasurer When Audit Was Conducted	Anthony Parker
• Treasurer During Period Covered by Audit	Louis Pope 6/21/2010 - 4/12/2011 Anthony Parker 4/13/11 - Present
<b>Management Information</b>	
• Attended Commission Campaign Finance Seminar	Yes
• Who Handled Accounting and Recordkeeping Tasks	Paid Staff

#### Overview of Financial Activity (Audited Amounts)

<b>Cash-on-hand @ June 22, 2010</b>	<b>\$ 0</b>
<b>Receipts</b>	
o Federal Funds	18,248,300
o Loans Received	1,000,000
o Offsets to Convention Expenditures	998,957
<b>Total Receipts</b>	<b>\$ 20,247,257</b>
<b>Disbursements</b>	
o Convention Expenditures	17,789,385
o Loan Repayments	1,000,000
<b>Total Disbursements</b>	<b>\$ 18,789,385</b>
<b>Cash-on-hand @ December 31, 2012</b>	<b>\$ 1,457,872</b>

## **Part III**

### **Summaries**

### **Findings and Recommendations**

#### **Finding 1. Net Outstanding Convention Expenses**

COA received \$18,248,300 in federal funds to finance the Republican National Convention. The Statement of Net Outstanding Convention Expenses (NOCE), as calculated by the Audit staff, shows an amount of unspent funds of \$1,020,769<sup>2</sup>. This amount is repayable to the United States Treasury. On June 28, 2013, COA made an interim repayment of \$350,000.

In response to the Preliminary Audit Report recommendation, COA provided documentation indicating the remaining capital assets were of no residual value and an updated NOCE through, August 2014. These adjustments have been incorporated by Audit staff into the revised NOCE that reflects an amount of unspent funds of \$701,106 as of February 28, 2014. In addition, COA, did not dispute the NOCE calculations contained in the Preliminary Audit Report.

The Audit staff recommends that the Commissioner make a determination that the remaining portion of unspent funds, \$701,106, is repayable to the United States Treasury. (For more detail, see p. 4.)

#### **Finding 2. Failure to Itemize Debts**

Audit fieldwork found that COA failed to report debts and obligations relating to four vendors totaling \$272,085 on Schedule D (Debts and Obligations).

In response to the Preliminary Audit Report recommendation, COA filed amended reports to itemize these debts and obligations. In addition, COA stated that it disagreed with the basis for the finding but provided no further explanation. (For more detail, see p. 6.)

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<sup>2</sup> This amount is based on the NOCE as prepared through October 31, 2013.



## Part IV

# Findings and Recommendations

### Finding 1. Net Outstanding Convention Expenses

#### Summary

COA received \$18,248,300 in federal funds to finance the Republican National Convention. The Statement of Net Outstanding Convention Expenses (NOCE), as calculated by the Audit staff, shows an amount of unspent funds of \$1,020,769<sup>3</sup>. This amount is repayable to the United States Treasury. On June 28, 2013, COA made an interim repayment of \$350,000.

In response to the Preliminary Audit Report recommendation, COA provided documentation indicating the remaining capital assets were of no residual value and an updated NOCE through, August 2014. These adjustments have been incorporated by Audit staff into the revised NOCE that reflects an amount of unspent funds of \$701,106, as of February 28, 2014. In addition COA, did not dispute the NOCE calculations contained in the Preliminary Audit Report.

The Audit staff recommends that the Commission make a determination that the remaining portion of unspent funds, \$701,106, is repayable to the United States Treasury.

#### Legal Standard

**A. Entitlement to Payments From the Fund.** The national committee of a major party shall be entitled to payments with respect to any presidential nominating convention, in amounts that in the aggregate shall not exceed \$4,000,000, as adjusted by the Consumer Price Index. The major party entitlement for the 2012 nominating convention was \$18,248,300. 26 U.S.C. §9008(b)(1) & (5).

**B. Repayments.** Any portion of the entitlement that remains unspent after all convention expenses have been paid shall be returned to the Secretary of the Treasury. The national committee or convention committee shall make an interim repayment of unspent funds based on the financial position of the committee as of the end of the ninth month following the last day of the convention, allowing for a reasonable amount as determined by the Commission to be withheld for unanticipated contingencies. The interim repayment shall be made no later than 30 calendar days after the end of the ninth month following the last day of the convention. 11 CFR §9008.12(b)(5).

**C. Repayment Determination Procedures.** The Commission will follow the same repayment determination procedures, and the committee has the same rights and obligations as are provided for repayment determinations involving publicly funded candidates under 11 CFR 9007.2(c) through (h). 11 CFR §9008.12(c).

<sup>3</sup> See footnote #2.

**D. Net Outstanding Campaign Expenses (NOCE).** A convention committee shall file, no later than 60 days after the last day of the convention, a statement of that committee's "net outstanding convention expenses." This statement must contain, among other things:

- The total of all committee assets including cash on hand, amounts owed to the committee and capital assets listed at their fair market value;
- The total of all outstanding obligations for qualified campaign expenses; and
- An estimate of necessary winding-down costs. 11 CFR §9008.10(g).

## **Facts and Analysis**

### **A. Facts**

For the 2012 national conventions, each major political party was entitled to receive federal funds of \$18,248,300 to finance its national presidential nominating convention. The 2012 Republican National Convention ended on August 30, 2012. COA filed a Statement of Net Outstanding Convention Expenses as of October 14, 2012. The Audit staff reviewed financial activity through February 28, 2014, and estimated the winding down cost in preparing the figures shown below.

### **Statement of Net Outstanding Convention Expenses**

**As of October 14, 2012**

**Prepared Through February 28, 2014**

#### **Assets**

Cash in Bank	\$2,556,924	
Accounts Receivable	<u>1,051,925</u> [a]	
<b>Total Assets</b>		<b>\$3,608,849</b>

#### **Liabilities**

Accounts Payable for Qualified Convention Expenses at 10/14/12		\$1,840,027
Winding Down Costs		
Actual (10/15/12 – 2/28/14)	\$691,866	
Estimated (3/01/14 – 8/31/14)	<u>25,850</u> [b]	<u>717,716</u>
<b>Total Liabilities</b>		<b><u>\$2,557,743</u></b>
<b>Net Outstanding Convention Expenses (Surplus) as of October 14, 2012</b>		<b>\$1,051,106 [c]</b>
<b>Less: Interim Repayment made June 28, 2013</b>		<b><u>(\$350,000)</u></b>
<b>Amount Repayable to the United States Treasury</b>		<b><u>\$701,106</u></b>

[a] This amount includes a pending receivable of \$4,182.

[b] Estimated winding down costs will be compared to actual winding down cost and adjusted accordingly.

[c] Due to the estimated winding down cost decreasing, the amount of surplus has increased by \$30,337.

The NOCE as calculated by the Audit staff showed unspent funds of \$1,020,769 as of October 31, 2013. At the exit conference, COA representatives were provided a copy of the NOCE as calculated by the Audit staff. The Audit staff explained that the amounts will have subsequent adjustments relating to future financial activity. A COA representative stated that the amounts are close to their numbers and that COA would be filing an updated NOCE. Pursuant to 11 CFR §9008.12(b)(5), COA made an interim repayment of \$350,000 to the United States Treasury on June 28, 2013.

#### **B. Preliminary Audit Report & Audit Division Recommendation**

The Preliminary Audit Report recommended that COA provide documentation demonstrating that either: (a) no repayment of the remaining unspent funds was due; or (b) a lesser amount was due as repayable to the United States Treasury.

#### **C. Committee Response to Preliminary Audit Report**

In response to the Preliminary Audit Report recommendation, COA provided an updated NOCE through August 2014. COA also provided documentation indicating that capital assets initially valued at \$15,372, as presented on the NOCE in the Preliminary Audit Report, were of no residual value. These adjustments have been incorporated into the revised NOCE that reflects an amount of unspent funds of \$701,106, as of February 28, 2014. In addition COA, did not dispute the NOCI calculations contained in the Preliminary Audit Report. As a result, the amount repayable to the United States Treasury is \$701,106.

## **Finding 2. Failure to Itemize Debts**

### **Summary**

Audit fieldwork found that COA failed to report debts and obligations relating to four vendors totaling \$272,085 on Schedule D (Debts and Obligations).

In response to the Preliminary Audit Report recommendation, COA filed amended reports to itemize these debts and obligations. In addition, COA stated that it disagreed with the basis for the finding but provided no further explanation.

### **Legal Standard**

**A. Continuous Reporting Required.** A political committee must disclose the amount and nature of outstanding debts and obligations until those debts are extinguished. 2 U.S.C. §434(b)(8) and 11 CFR §§104.3(d) and 104.11(a).

**B. Separate Schedules.** A political committee must file separate schedules for debts owed by and to the committee with a statement explaining the circumstances and conditions under which each debt and obligation was incurred or extinguished. 11 CFR §104.11(a).

### **C. Itemizing Debts and Obligations.**

- Once it has been outstanding 60 days from the date incurred, a debt of \$500 or less must be reported on the next regularly scheduled report.
- A debt exceeding \$500 must be disclosed in the report that covers the date on which the debt was incurred, except reoccurring administrative expenses (such as rent) shall not be reported as a debt before the payment due date. 11 CFR §104.11(b).

## **Facts and Analysis**

### **A. Facts**

During audit fieldwork, the Audit staff reviewed disbursement records and disclosure reports for proper reporting of debts and obligations using both sampling and a 100 percent review. These reviews identified debts owed to four vendors totaling \$272,085 that COA failed to disclose. COA should have reported the debts on Schedule D of its disclosure reports that covered the dates on which the debts were incurred. Specifically, COA incurred a debt totaling \$80,500 on May 22, 2012, owed to Campaign Solutions/The Donatelli Group and should have reported the debt on Schedule D of its July 2012 Quarterly report. In addition, COA should have reported on Schedule D of its October 2012 Quarterly report a debt totaling \$13,762 owed to Mass Relevance that was incurred between August 27 and September 12, 2012, a debt totaling \$162,811 owed to Smart Source that was incurred between July 16 and September 17, 2012, and a debt totaling \$15,012 owed to Vente Networks that was incurred on September 10, 2012. The number of days outstanding for the debts ranged from 43 days to 93 days. It should be noted that COA did not report any debts during the audit period.

### **B. Preliminary Audit Report & Audit Division Recommendation**

The Audit staff discussed the reporting of debts and obligations with COA representatives and provided schedules detailing the transactions requiring disclosure. COA representatives had no comment on this matter. In response to the exit conference, COA wrote that it disagreed with the basis for a finding that it failed to itemize debts. COA noted that it promptly paid all invoices following a diligent internal review process in which the invoices were reviewed for accuracy, legitimacy, approved by the designated committee personnel and extinguished during the subsequent reporting period. Nevertheless, COA agreed to file amended Schedules D, to disclose the four items identified by the Audit staff.

The Preliminary Audit Report recommended that absent documentation demonstrating that these expenditures did not require reporting on Schedule D, COA amend its disclosure reports to properly disclose these debts.

### **C. Committee Response to Preliminary Audit Report**

In response to the Preliminary Audit Report recommendation, COA filed amended Schedules D to itemize these debts and obligations. In addition, COA stated that it disagreed with the basis for the finding but provided no further explanation.